

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07
L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15
AID-05 COME-00 EB-08 FRB-01 TRSE-00 XMB-04 OPIC-06
LAB-04 SIL-01 OMB-01 /112 W
-----040834Z 017877 /11

R 031809Z MAR 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 0408
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION EC BRUSSELS
USMISSION GENEVA
USDEL MTN GENEVA
AMEMBASSY LONDON
AMCONSUL OPORTO
AMEMBASSY PARIS
USMISSION OECD PARIS
AMCONSUL PONTA DELGADA

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E.O. 11652: N/A
TAGS: EFIN, ECON, EAGR, ETEL, PO
SUBJ: FURTHER DETAILS ON GOP ECONOMIC MEASURES OF FEB 25

REF: (A) LISBON 1554, (B) LISBON 1671 (NOTAL)

SUMMARY: REFTELS PROVIDED SUMMARY AND SOME DETAILS OF
ECONOMIC MEASURES ANNOUNCED FEB 25. THIS CABLE DESCRIBES
INNOVATIONS IN THE PRICE CONTROL SYSTEM; CONTROLS FOR THE
PURCHASE AND UTILIZATION OF CEREALS; INCREASED DOMESTIC
POSTAL, TELEGRAPH, AND TELEPHONE CHARGES; AND THE EXCHANGE
RISK GUARANTEE FUND. ESCUDO FIGURES HAVE BEEN CONVERTED
TO DOLLARS AT 38.7 ESCUDOS/DOLLAR. END SUMMARY.

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1. LIBERALIZED PRICE CONTROL SCHEME: A.) ACCORDING TO
PREAMBLE OF DECREE-LAW 75-Q/77 OF FEB 28, FORMER PRICE
CONTROL SYSTEM (DESCRIBED IN 76 LISBON A-97 NOTAL) WAS
TOO RIGID AND SLOW, GIVING RISE TO LARGE DISTORTIONS.
IN ADDITION, GOP LACKED MEANS TO ENFORCE SYSTEM. NEW
SYSTEM, WHILE LEAVING GOP POWER TO CORRECT ANY "ANOMALIES",
IS MORE FLEXIBLE AND RESPONSIVE TO MARKET MECHANISMS.

B.) PRICE CONTROL SCHEME IN EFFECT SINCE 1974 INCORPORATED SEVERAL CATEGORIES, INCLUDING "MAXIMUM", "CONTROLLED", "DECLARED", "MARK-UP", "CONTRACTED", AND "FREE" PRICES. THE NEW SYSTEM RETAINS MAXIMUM PRICES FOR A NUMBER OF ESSENTIAL GOODS (INCLUDING "CONSUMER BASKET" OUTLINED IN REF B). THE "CONTROLLED" PRICE CATEGORY HAS BEEN ELIMINATED EXCEPT THAT PRODUCTS OR SERVICES THAT WERE IN THIS CATEGORY WILL HENCEFORTH BE SUBJECT TO AN "A POSTERIORI" "DECLARED PRICE." THIS NEW SYSTEM WILL REMAIN IN EFFECT UNTIL INTRODUCTION OF A "PRICE CODE."

C.) UNDER "DECLARED PRICES" SYSTEM, COMPANIES MUST GIVE GOP 15 DAYS ADVANCE NOTICE, ACCOMPANIED BY COST JUSTIFICATIONS, OF ANY PRICE INCREASE. INCREASE REMAINS IN EFFECT UNLESS GOP, WITHIN 60 DAYS FROM RECEIPT OF NOTICE (75 DAYS FOR SUCH GOODS AS WOOD PULP, MINERALS, CHEMICALS, METALS, MACHINERY, VEHICLES, ELECTRICITY, TRANSPORTS, COMMUNICATIONS), IMPOSES DIFFERENT PRICE. GOVERNMENT-DETERMINED PRICE WOULD BECOME EFFECTIVE THREE DAYS AFTER NOTIFICATION.

2. NEW CEREALS SYSTEM: A.) CEREALS INSTITUTE HAS HAD MONOPOLY ON PURCHASE OF DOMESTIC WHEAT PRODUCTION. DECREE-LAW 75-P/77 OF FEB 28 EXTENDS THIS MONOPOLY TO INCLUDE BARLEY AND OATS. INSTITUTE WILL SET UNIFORM PRICE REFLECTING PRODUCTION COSTS, RATHER THAN VOLUMES OF PRODUCTION. PRODUCERS WILL BE REQUIRED TO REPORT AMOUNTS SOWN AND HARVESTED.

B.) THIS DECREE NOTED THAT NEWLY-INCREASED PRICE FOR UNCLASSIFIED

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BREAD (SEE REF B) STILL IMPLIES A HEAVY GOP SUBSIDY. HOWEVER, 1977 SUBSIDY WILL AMOUNT TO ONLY 1.4 BILLION ESCUDOS (\$35.7 MILLION) RATHER THAN 3.9 BILLION ESCUDOS (\$101.3 MILLION), AS WOULD HAVE BEEN REQUIRED UNDER PREVIOUS PRICE. IN ADDITION, MAXIMUM PRICE COVERS ONLY COMMON, UNSLICED WHEAT BREAD. PRICES FOR ALL OTHER TYPES OF BREAD ARE UNCONTROLLED.

3. INCREASED DOMESTIC COMMUNICATIONS CHARGES: FOLLOWING CHARGES GO INTO EFFECT MARCH 10 (IN ESCUDOS):

	PERCENTAGE		
	OLD	NEW	CHANGE
-BASIC DOMESTIC POSTAL			
CHARGE (LETTER)	3.00	4.00	33.3
- DOMESTIC TELEGRAM (METROPOLITAN AREAS)			
--BASIC CHARGE	8.00	10.00	25.0
--EACH WORD	0.70	1.00	42.9
- BASIC MONTHLY TELEPHONE			

SUBSCRIPTION (NO CHANGE IN
1.50 ESCUDO UNIT CHARGE OR
INSTALLATION CHARGE). 100.00 200.00 100.0

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4. EXCHANGE RISK GUARANTEE FUND: A.) FUND, TO BE SUPER-
VISED BY BANK OF PORTUGAL, WILL HAVE INITIAL CAPITAL OF
1 BILLION ESCUDOS (\$25.8 MILLION), SUBSCRIBED BY THE
COMMERCIAL BANKS. OPERATIONS WILL BE FINANCED THROUGH:
- 0.5 PERCENT CHARGE ON ALL LOANS EXCEPT THOSE
FINANCING AGRICULTURAL, FORESTRY, FISHERIES, OR
EXPORT OPERATIONS; HOME-OWNERS' LOANS; AND
PURCHASES OF ESSENTIAL FOODSTUFFS. CHARGE WILL
BE 2 PERCENT ON CREDITS FOR CONSUMER DURABLES; AND
- DIFFERENCE BETWEEN EFFECTIVE INTEREST RATE OF
EACH FOREIGN CREDIT AND MAXIMUM PERMISSIBLE INTERNAL
BANK CHARGES, LESS 0.5 PERCENT.
B.) THE FUND CAN SIGN CONTRACTS GUARANTEEING AGAINST
FOREIGN EXCHANGE RISK, IN CASES OF LOANS IN THE NATIONAL
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INTEREST, FOR A PERIOD UP TO ONE YEAR. IN OPERATIONS OF
"EXCEPTIONAL INTEREST," THE CONTRACT CAN BE RENEWED FOR
UP TO FIVE YEARS. WHEN BORROWER REPAYS FOREIGN LOAN,
THE FUND WILL PAY OR RECEIVE ANY DIFFERENCE, BETWEEN
THE CONTRACTED EXCHANGE RATE AND THE ACTUAL RATE, THAT IS
LARGER THAN THREE PERCENT. IF THE FUND REFUSES TO ESTAB-
LISH A FIXED FORWARD EXCHANGE RATE, REFUSAL MUST BE
JUSTIFIED TO THE FINANCE MINISTRY, WHICH THEN CAN
SET A RATE.
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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
Enclosure: n/a
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